

**TRADING FOR BEGINNERS**

# 10 TIPS TO A SUCCESSFUL TRADING PLAN



# Table of contents

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1. Understand the market before you start trading	4
2. Determine market conditions	5
3. Know where to enter the market	6
4. Assess your risk appetite	7
5. Understand your risk/reward ratio	8
6. Control your trading capital	9
7. Document your trading plan	10
8. Put your plan to the test	11
9. Remove emotions from the equation	12
10. Find out what type of trader you are	13
11. Bonus: Apply discipline and consistency	14
Risk warning	15

A solid trading plan will provide a blueprint for your trading activities and define your goals.

This, in turn, will help you stay on track and potentially avoid an undesirable outcome.

Creating a trading strategy involves a lot of moving parts. Creating a successful trading strategy takes a little more than that. In this trading guide, we've outlined ten essential steps every trading plan needs to have.



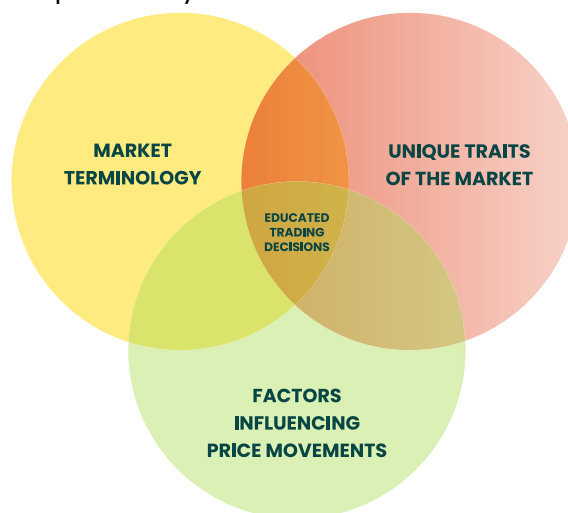
# 1

## Understand the market before you start trading

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A solid understanding of the financial market you are going to trade on is crucial for building a good trading strategy. Having a strong knowledge base will help you navigate a large volume of trading information confidently and make educated trading decisions.

No matter what market you choose for your trading journey – forex, indices, commodities or others – there are three main points any trader needs to focus on:



*Essentials of a day trading plan for beginner day traders*

For example, in forex, price movements are measured in pips, while in all the other markets, they are measured in ticks or points. This unique trait of each market requires an understanding of the market terminology.

Factors influencing price movements in each market will also vary. Forex, for instance, is heavily influenced by economic reports from the home countries of the traded currency pairs, while the prices of commodities are highly dependent on supply and demand. As a result, forex will move in large swings when economic reports are released, (especially reports from the US, Eurozone, or Japan), and commodities will see a lot of movement after the announcements of shortages in supply. To identify trading opportunities presented by such events, you need a clear understanding of what exactly influences each market.

A good starting point for learning these essential details can be the trading guides on our website. Keep your demo trading account open as you go through any new information, and try to apply it in practice whenever possible.

# 2

## Determine market conditions

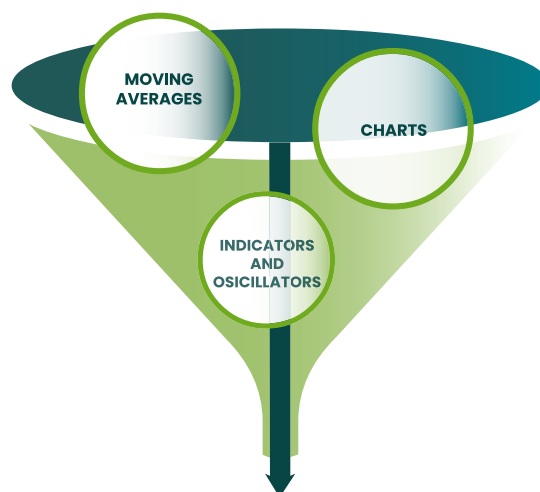
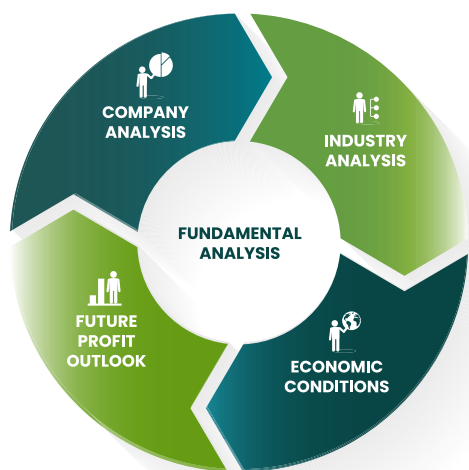
Evaluating market conditions, in a nutshell, means identifying strong trading signals that present trading opportunities. To determine it, you need to be able to analyse the market you selected.

There are two main methods of doing it – fundamental and technical analysis. The main difference between the two is the type of data used to predict future market movements. Technical analysis is based on the past price movements of an instrument, while fundamental analysis studies economic and financial factors that may affect the markets in future.

At first, analysing financial markets may seem complicated and even intimidating. However, like with any other complex topic, you can start with a basic approach and advance little by little once you start getting a better understanding of how it works.

For a novice trader, it may be easier to start with news trading, identifying support and resistance levels and understanding some basic chart patterns. On the other hand, experienced traders can find trading signals in complex economic reports and technical indicators. Regardless of your experience level, you need to have a clear understanding of the analysis process you use before you start relying on it.

However, whether you choose fundamental analysis, technical analysis or a mix of the two, it's important to note that neither provides a guaranteed trading outcome. Any market analysis only indicates a potential price movement and could help determine your entry point.



*Two ways of analysing markets a day trader should know*

# 3

## Know where to enter the market

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In trading, the entry point refers to the price level you are willing to open a trade at. While doing your market analysis, you will often see that sometimes the markets are primed for trading, while at other times it may be best to stand aside. If the trading signal you have identified is strong, you can open a trade right away. However, if you are unsure of the current market conditions or the available information is providing conflicting signals, it could be better to hold on and wait for a trade with a stronger signal.

There will also be times when the signal seems strong, but your desirable entry point is not available on the market yet. In this case, you can place a pending order that will be executed only once the price reaches your specified level. Pending orders can help you manage risk and ensure that you enter the market according to your predetermined plan.

To get some insights about the entry points for your trading plan, you can also keep an eye on the regular market news posted on our website by trading experts. Financial markets are unpredictable, and even experts can't guarantee the next price movement. However, they share valuable tips that may help you adjust and fine-tune your trading plan.



# 4

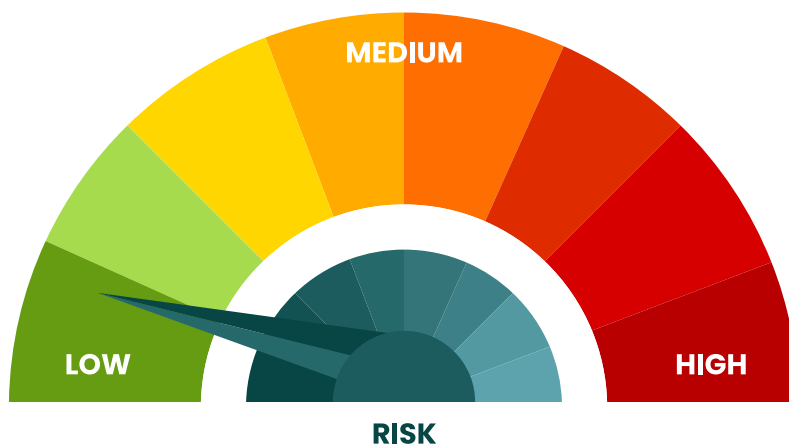
## Assess your risk appetite

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New traders tend to have a strong aversion to risk and often focus too heavily on losses or, worse, refuse to close a losing position. They increase their risk exposure and believe that the market will return in their favour. Successful traders know there is a potential risk in every trade. That's why setting an appropriate risk level before you start trading and sticking to it is one of the most important steps of creating a trading strategy. A wise trader won't risk more than they can afford to lose.

Determining how much of your capital you can risk per trade depends on your total trading account size and experience. Many traders use a 1-3% risk level as their control point, but beginners usually start with 1% to get comfortable with the idea. So if you have a starting capital of USD 10,000, a good starting point could be to set your risk limit to 1% – USD 100 per trade.

It is not uncommon to experience strings of wins and losses, but whether you have a good day or your predictions are incorrect, it should not change your pre-determined risk level.



*Alt text: Assessing risk appetite is crucial for day traders*

# 5

## Understand your risk/reward ratio

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A risk/reward ratio is a balance between how much you are willing to lose in order to gain a certain reward. Once you know your risk level, the next step is to set a desirable reward level. Just like with a 1-3% risk level, a 1:3 risk/reward ratio is widely considered appropriate among traders.

It means you should expect no more than three points of return for every point you risk. So with a trading capital of USD 10,000 and a risk level of 1% (USD 100), your target return should not exceed USD 300. However, beginners often prefer to start with a lower reward level as well and set their risk/reward ratio to 1:1, which is USD 100 as a target return for every USD 100 of risk.

In many cases, a reasonable reward goal will also depend on the instrument and market you are trading on. For example, you shouldn't expect a 300-point price move from a market with a 100-point average range.

### RISK / REWARD RATIO

	RISK	REWARD
1:3	USD 100	USD 300
1:1	USD 100	USD 100



# 6

## Control your trading capital

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The price movements on any market are outside your control as a trader. What you can control is the negative or positive impact any one of them has on your trading account. Risk management tools, such as stop loss and take profit, will help you keep your risk/reward ratio in check and avoid undesirable and unpredicted results.

Generally speaking, every trade you place has only three possible outcomes:

1. The market goes in your favour = you gain
2. The market moves against you = you lose
3. The market trades sideways = no gain and no loss

To have control over your trading account, features are available to use such as take profit to lock your gains in successful trades and stop loss to limit your losses if the market moves against you.

Following our previous example, for the trading account of USD 10,000 with a 1:3 risk/reward ratio, your stop loss could be set to USD 100 and take profit to USD 300. You don't need to do any special calculations to determine the exact price level for these orders – most of the platforms indicate potential profit and loss as you set your take profit and stop loss levels.

As we mentioned earlier, following your predetermined risk level without changing it for already running trades is crucial. Many traders have made the unfortunate mistake of adjusting stop-loss orders lower and lower on a losing trade until they hit the point of ruin. Whereas other traders have adjusted take-profit orders higher and higher just to see their profits vanish as a trade quickly reverses against them.

Sometimes you will find yourself in a third scenario, where the instrument you are trading on moves sideways for an extended period without bringing you the desirable gain and not triggering your stop loss. In such cases, many traders prefer to exit the trade manually, re-evaluate their trading plan and wait for a stronger trading signal.

# 7

## Document your trading plan

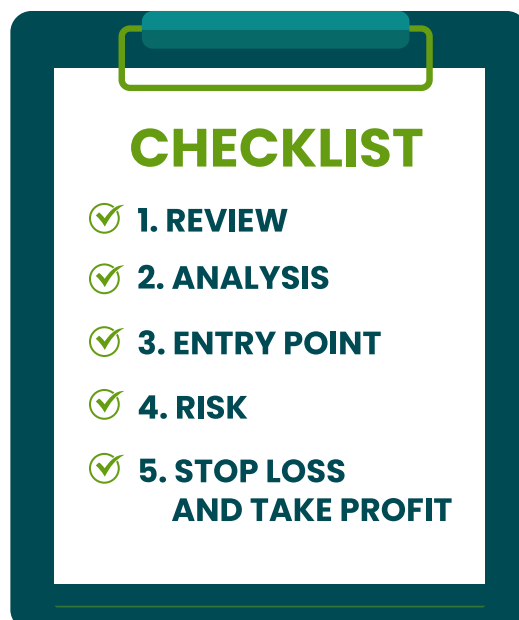
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The easiest way to re-evaluate your trading plan is to go through each and every step of it and check whether the information you determined earlier is still relevant. That's why documenting your plan is essential.

Here are some example steps that could be included in any trading plan:

1. Previous trading session review
2. Existing trading opportunities analysis
  - a. Macro-analysis of the current market – news, economic reports, other factors that impact markets
  - b. Micro-analysis of the current market – review of charts and technical indicators
3. A defined entry point
4. A defined risk you are comfortable with per trade
5. Defined stop loss and take profit levels

Every trading plan is unique and depends on the personal goal of a trader. You may follow the same steps or create different ones to match your personal trading needs – no matter which option you choose, documenting it could still help you stay on track.



# 8

## Put your plan to the test

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Going through the motions of your trading plan is as important as documenting it. Use a demo trading account to test it in a simulated real-world market environment with no risk.

Making an effort to practice trading on a demo account can help identify weaknesses in your trading plan and allow you to adjust it where necessary. To give your trading strategy a real test, keep in mind that when trading with a demo account, it is critical to follow your plan and execute each step as if you were trading in a live environment.

That means placing trades only if your plan signals it, respecting all stop-loss and take-profit levels and making adjustments or course corrections only after the end of a trading session, not during it.

Many new traders make the mistake of not treating their demo account with the same discipline and mindset they would have for their live account with real money. As a result, when the same trading strategy is applied to a live trading account, the results will differ greatly compared to the demo account. Moreover, not following the predetermined actions will make it much harder to review and analyse your trading session later.

That's why it is important to stick to your trading plan to prepare yourself for transitioning from a demo account to live.

# 9

## Remove emotions from the equation

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Uncontrolled emotions are one of the key reasons traders abandon their trading plan and fail to achieve the outcome they seek.

When you begin your trading journey, it is important to remove any non-related or outside influences from your environment to allow yourself to trade with a clear focus.

Seasoned traders apply various techniques to eliminate emotions from day-to-day trading and follow the structure and discipline provided by a well-thought-out trading plan. Some of them use a daily ritual, such as a short checklist related to their trading plan. Others use a brief physical exercise to help clear their mind and sharpen their focus. It can be anything else that works for you personally as long as it helps to achieve the main goal – developing a process that will help you execute each and every step of your trading plan without deviation. Like any new skill you are learning, your trading process will soon develop a natural flow and become second nature as long as you stay true to it.



# 10

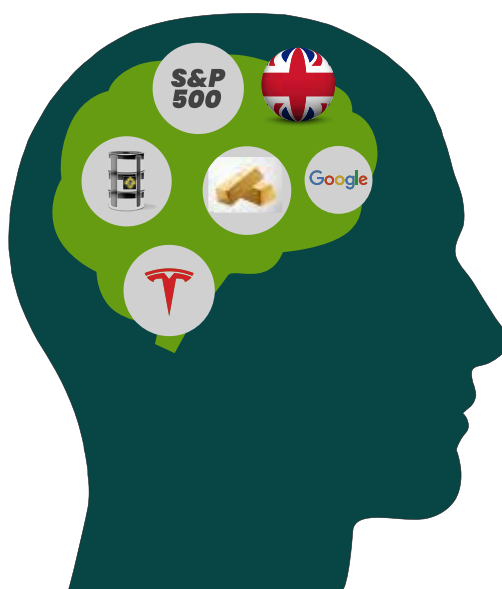
## Find out what type of trader you are

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Once you run your trading strategy a few times, you will start noticing that some trades work better for you than others. That's when you know it's time to find out your trading personality.

Understanding your own trading personality can help you achieve the most positive experience and results from your trading. Some traders are better suited for high-volume, short-term trading, while others thrive using a slower long-term style.

Determining what trading style works better for you is just as important as knowing the personality of the market you decide to trade on. There are many assessments available online to help you learn more about yourself in a trading environment, as well as numerous books and articles written on trading psychology and behavioural finance. Explore who you are as an individual and how that can apply to your trading psychology and strategy.



# 11

## Bonus

### Apply discipline and consistency

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There is no ultimate success route to trading, but as with many things in life, being disciplined and consistent could be seen as key. It may take more than one try and some patience to find out whether a certain trading strategy is working.

Beginner traders often give up on their plans as soon as they face their first loss and move to another strategy hoping it will work better. Stay disciplined and consistent, study the details of your trading sessions and plan your next steps only with a clear understanding of what works well and what doesn't.

Ready to get started? Start with ThinkTrader. Our award-winning platform gives access to over 4000 financial instruments, market news and multiple analytical tools to help you define your trading plan.

Try it now on the web or download the app



Scan the QR code with your phone to download ThinkTrader



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